OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

Transportation Management Service Provider Shipping Process

Audit Report

February 24, 2014

Report Number SM-AR-14-003

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

February 24, 2014

Transportation Management Service Provider Shipping Process

Report Number SM-AR-14-003

BACKGROUND:

Transportation Management Service Provider (TMSP) is the U.S. Postal Service's national contract for shipping non-mail freight items, such as supplies, parts, and equipment used for postal operations. When determined cost beneficial, the Postal Service requires its suppliers to use the TMSP contract to deliver products and not charge for shipping on their invoices. Between April 2011 and March 2013, the Postal Service paid C.H. Robinson Worldwide, the primary TMSP, about $68 million for shipping services from more than 1,100 suppliers. [redacted] LLC, an independent audit company, audits TMSP shipments quarterly to confirm the Postal Service received shipments and paid accurate rates.

Our objective was to determine whether suppliers using the TMSP contract charged the Postal Service for shipping and that shipments were received. This audit focused on shipping charges from 13 suppliers, which accounted for about $28 million (or 41 percent) of overall shipment costs.

WHAT THE OIG FOUND:

Twelve of the 13 suppliers using TMSP did not include shipping costs on their invoices. However, the Postal Service could not determine whether one supplier included shipping costs for 80 shipments, valued at $51,550, because the supplier did not itemize all costs on their invoices. The Postal Service took responsibility for all shipping costs on future TMSP shipments and directed the supplier to exclude shipping costs in the future.

In addition, [redacted] audit process did not provide sufficient controls over the TMSP contract to confirm receipt of shipments. Specifically, [redacted] did not validate whether Postal Service officials received all 87 sampled shipments and did not require all recipients to respond to their proof of delivery surveys. We statistically projected at least $2,566,084 in unsupported questioned costs because officials did not validate receipt of shipments.

Further, officials did not confirm that 3,818 potential overcharges [redacted] identified were valid and did not pursue credits due to the Postal Service. We claimed $246,683 as assets at risk because the Postal Service did not have procedures to sufficiently identify and pursue shipping overcharges.

WHAT THE OIG RECOMMENDED:

We recommended management develop an alternative process to verify receipt of shipments and develop detailed procedures to address potential overcharges.

Link to review the entire report

February 24, 2014

MEMORANDUM FOR: SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

E-Signed by Michael A. Magalski
VERIFY authenticity with eSign Desktop

FROM: Michael A. Magalski
Deputy Assistant Inspector General
for Support Operations

SUBJECT: Audit Report – Transportation Management Service Provider Shipping Process
(Report Number SM-AR-14-003)

This report presents the results of our audit of the U.S. Postal Service's Transportation Management Service Provider Shipping Process (Project Number 13WG010SM000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Monique P. Colter, director, Supply Management and Facilities, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of the U.S. Postal Service's Transportation Management Service Provider (TMSP) Shipping Process (Project Number 13WG010SM000). This audit was the result of a value proposition between the U.S. Postal Service Office of Inspector General (OIG) and the manager of the Supply Management Facilities Portfolio. Our objective was to determine whether suppliers using the TMSP contract charged the Postal Service for shipping costs and determine the Postal Service's receipt of shipments. See Appendix A for additional information about this audit.

TMSP is the Postal Service's national contract for shipping non-mail freight items, such as supplies, parts, and equipment used for postal operations. When determined cost beneficial, the Postal Service requires its suppliers to use the TMSP contract to deliver products and not charge for shipping. Between April 2011 and March 2013, the Postal Service paid C.H. Robinson Worldwide, the primary TMSP, about $68 million for the shipping services of more than 1,100 suppliers. We reviewed about $28 million in shipping charges from 13 suppliers, 41 percent of the overall shipment costs. [redacted], LLC, an independent audit company, audits TMSP shipments quarterly to confirm the Postal Service received shipments and paid accurate rates.

Conclusion

Twelve of the 13 suppliers using the TMSP contract did not include shipping costs on their invoices. However, officials could not determine whether one supplier included shipping costs for 80 shipments, valued at $51,550, because the supplier did not itemize all costs on their invoices. The Postal Service took responsibility for all shipping costs on future TMSP shipments and directed the supplier to exclude them from future invoices.

In addition, [redacted] audit process did not provide sufficient controls over the TMSP contract to confirm receipt of shipments. [redacted] did not validate whether Postal Service officials received all sampled 87 shipments and did not require all recipients to respond to their proof of delivery surveys. We statistically projected at least $2,566,084 in unsupported questioned costs because officials did not validate receipt of shipments.

Officials did not confirm that 3,818 potential overcharges [redacted] identified were valid and did not pursue credits due to the Postal Service. We claimed $246,683 as assets at risk because the Postal Service did not have procedures to sufficiently identify and pursue shipping overcharges. See Appendix B for monetary impact details.

Identification of Shipping Costs

Postal Service officials had sufficient controls in place to prevent or detect shipping charges in the invoice process for 12 of the 13 suppliers we tested and did not pay shipping charges to those 12 suppliers. However, the Postal Service could not determine whether [redacted] a supplier of program management services,[1] billed shipping charges for 80 shipments valued at $51,550 that occurred from the end of June 2012 to March 2013. We claim assets at risk of $51,550 in shipping costs for these 80 shipments. See Appendix B for additional information.

The Postal Service had a direct relationship with the other 12 suppliers and could obtain detailed information and invoices, whereas [redacted] is a program management company that secured proposals and invoices from subcontractors. Work under the [redacted] contract was firm-fixed price[2] (FFP), which did not require [redacted] or its subcontractors' proposals or invoices to identify shipping costs. The [redacted]' contract required the supplier and subcontractors to be responsible for shipping;, therefore, it included shipping costs in the overall invoice with materials orders. In April 2012, the Postal Service changed the shipping method for cabinetry materials to F.O.B. Origin,[3] making the Postal Service responsible for shipping. However, the Postal Service could not determine whether shipping charges were included in invoices for proposals originating before April 2012 because they were not detailed enough to allow a determination. The Postal Service had no guidelines for obtaining such detailed information and management stated this level of detail is not required for FFP work. As a result, there was a risk that such charges were still included in [redacted]' pricing.

From April to June 2012, the Postal Service delayed telling [redacted] to use the TMSP process for cabinetry material orders and not include shipping costs in its bids; therefore, [redacted] continued to charge the Postal Service shipping costs for these materials. This resulted in [redacted] owing the Postal Service for shipping costs billed between April and June 2012. However, because shipping costs were not itemized on facilities' work orders or the supplier's proposals and invoices, the Postal Service could not determine the amount [redacted] owed and, instead, relied on the supplier to calculate the amount due. [redacted] determined the Postal Service was due $32,104 and the Postal Service agreed with this amount.

The [redacted] contract expired in July 2013 and the Postal Service awarded a new program management service contract to three suppliers, including [redacted]. Because the TMSP contract uses the F.O.B. Origin shipping method and the Postal Service

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[1] [redacted] provided multiple real estate- and facilities-related services that support the national facilities program.

[2] A firm-fixed-price contract obligates the supplier to deliver the product or service specified by the contract for a fixed price. The amount of profit the supplier receives depends on the actual cost outcome. *Supplying Principles and Practices*, Section 2-18.3, Firm-Fixed-Price Contract, September 2013.

[3] F.O.B. Origin means the Postal Service arranges for pick-up, transportation, and delivery to the required destination. *Supplying Principles and Practices*, Section 4-2.5, Free-On-Board (F.O.B) Destination, September 2013.

directed suppliers using the TMSP contract to exclude shipping costs for future cabinetry orders, we are not making a recommendation.

Proof of Delivery Discrepancies

The Postal Service must improve oversight of the TMSP audit process for validating shipment receipt. [redacted] did not verify that the signature of a designated Postal Service official was on the bill of lading for all 87 shipments we sampled. This occurred because [redacted] audit methodology does not require such verification but only confirmation of a signature. Management stated there is too much turnover to expect [redacted] to keep up with personnel changes at the Postal Service and the risk does not outweigh the cost of requiring such validation. Without verification that the recipient is a designated Postal Service official, there is a risk that Postal Service facilities will not receive shipments or unauthorized personnel will receive them.

The survey [redacted] mailed to a sample of Postal Service receiving locations was insufficient to confirm receipt of deliveries. Managers were instructed to respond only if they could not confirm receipt of shipments. [redacted] reported that it received 10 of the 330 surveys it mailed using this negative confirmation technique and, therefore, claimed a delivery confirmation rate of 97 percent or better. However, we tested 87 shipments, with shipping charges totaling $99,047, from [redacted] sampling data, and Postal Service personnel could only provide a bill of lading for 17 of them (20 percent) as evidence of receipt of goods (see Figure 1).

Of the missing 70 bills of lading:

- Thirty receiving managers (43 percent) failed to respond to the request to indicate whether they received the shipment. This included one shipment sent to a facility that does not appear to be a valid Postal Service facility. This shipment was referred to the OIG Office of Investigations for resolution.

- Twelve receiving managers (17 percent) responded that the bills were requested outside the retention window, claiming the window ranged from 30 days to 1 year. However, policy requires the receiving manager to retain the bill of lading for 4 years.[4]

- Twelve receiving managers (17 percent) could not find the bill of lading.

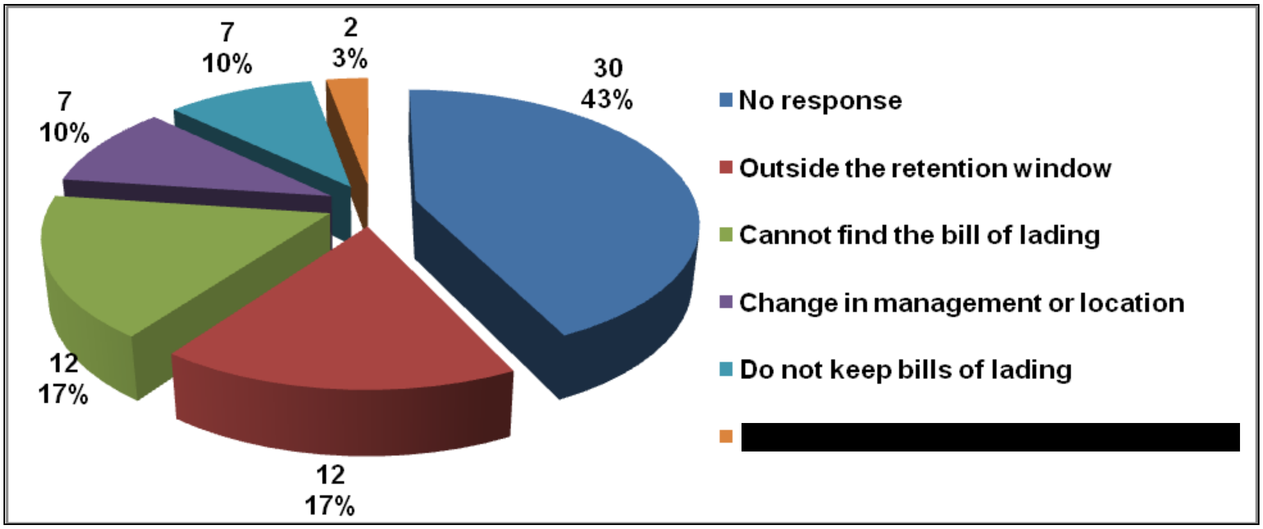
- Seven receiving managers (10 percent) stated that paperwork was lost during a change in management or location.

- Seven receiving managers (10 percent) stated that receiving personnel did not retain the bills.

[4] Handbook AS 701, *Material Management*, Section 221.3, Document Retention, April 2012.

- Two receiving managers (3 percent) stated that bills were sent offsite to the [redacted] and not returned.

Figure 1. Explanation for Missing Bills of Lading



Source: OIG review of bills of lading as of September 19, 2013.

[redacted] used the negative confirmation survey to reduce the burden of requiring a response from recipient locations. However, using negative confirmations presents a risk of false-positive results where shipments are not received but the destination facility does not receive or act on the confirmation request. The American Institute of Certified Public Accountants[5] discourages using negative confirmation surveys during internal audits unless these three criteria are met: dollar amounts are small, internal controls adequately reduce risk, and the auditors can reasonably expect the recipient's attention to the survey. Because of the $68 million in shipping costs within our audit's scope, the prior OIG audit[6] that uncovered inadequate internal controls, and the poor rate of responses to the OIG's survey during this audit, using a negative confirmation process presents an increased risk of false-positive results.

[redacted] audit process does not provide sufficient controls over the TMSP contract to confirm the delivery of goods. Therefore, we statistically projected at least $2,566,084 in unsupported questioned costs because managers at Postal Service recipient locations could not produce copies of bills of lading to validate receipt. See Appendix B for additional information.

[5] American Institute of Certified Public Accountants, *Statements on Auditing Standards No.*67 and McConnell, D. & Banks, G., *A Common Peer Review Problem*.

[6] *The Postal Service's Certification Process for Non-Mail Freight Transportation Invoices* (Report Number CA-AR-09-002, issued February 18, 2009).

Oversight of Rate Quote Audit Exceptions

Postal Service officials did not confirm that potential overcharges [redacted] identified were valid and did not pursue credits due to the Postal Service. Between April 1, 2011, and March 31, 2013, [redacted] identified 3,818 invoiced transaction exceptions with potential overcharges totaling $255,667. An exception occurred when the amount paid differed from the quoted shipping rate.

Postal Service officials claimed that the majority of the exceptions were invalid and the result of incorrect information used in the audit process. They stated that elements such as dimensions, pick-up date,[7] and weight were incorrect when the rate was quoted or contracted rates were incorrect while the audit was being conducted. However, Postal Service officials did not have adequate procedures in place to address the potential overcharges [redacted] identified. With inaccurate data and insufficient procedures to identify and pursue overcharges, the Postal Service is at risk of overpaying for shipping costs. We claim $246,683 as assets at risk for 3,818 shipping transactions. See Appendix B for additional information.

Recommendations

We recommend the vice president, Supply Management, direct the manager, Asset Management, to:

1. Develop and implement an alternative process to [redacted] use of negative confirmation to ensure that all shipments are received and follow up on any exceptions identified.

2. Develop and implement detailed procedures to address the rate quote exceptions identified and pursue credits owed to the Postal Service.

Management's Comments

Management generally agreed with the findings, recommendations, and monetary impacts associated with this report. In response to recommendation 1, management stated that, because of the potential increased costs associated with these suggested changes, they will further assess the program and develop new requirements for auditing their freight invoices. They anticipate a new statement of work and establishment of an internal process for managing identified exceptions based on those new requirements. Management will issue a solicitation before the September 30, 2014, expiration of the current contract. The target implementation date is July 2014.

Regarding recommendation 2, management stated that, in coordination with their response to recommendation 1, they will assess the rate quote exception process to

[7] Extended period of time between the quoted and actual pick-up date can affect fuel surcharges and carrier availability.

determine the best approach to address this concern. The target implementation date is July 2014. See Appendix C for management's comments, in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report. However, we want to reiterate that management's plan of action regarding recommendations 1 and 2 should include processes to validate receipt of shipments, ensure the accuracy of rates paid, and pursue credits owed to the Postal Service.

The OIG considers all recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendix A: Additional Information

Background

The TMSP is the Postal Service's national contract for shipping non-mail freight items. When cost beneficial, the Postal Service requires its vendors to use the TMSP contract to deliver products. When using the TMSP contract, vendors must not include shipping charges on their invoices. Between April 2011 and March 2013, the Postal Service paid C.H. Robinson Worldwide, the primary TMSP, about $68 million for the shipping services of more than 1,100 suppliers, constituting 93 percent of all TMSP shipments.

[redacted] manages construction under the Postal Service's Leased Space Accessibility Program. Under the program, [redacted]' subcontractors' orders for construction supplies were shipped using the TMSP contract beginning April 13, 2012, but [redacted] was not notified of the change until June 6, 2012. Because of this delay, [redacted] negotiated a credit of $32,104 based on the TMSP contract's shipping costs for those products shipped from April 13 to June 5, 2012. The Postal Service depended on [redacted] to negotiate the credit on its behalf.

[redacted], an independent audit company, audits TMSP shippings quarterly to confirm the Postal Service received shipments and paid accurate rates. The Postal Service contracted [redacted] because of a prior OIG audit,[8] which recommended implementing written procedures for the independent review of transportation invoices to confirm the receipt of goods and services and ensure accurate payment.

[redacted] audit of proof of delivery documents includes reviewing bills of lading and confirming a consignee signature on the documentation indicating receipt of shipments. It conducts this audit quarterly on a sample of 360 shipments. Documents are primarily retrieved from carrier websites. For 10 percent of the sample, [redacted] also uses a negative confirmation method requiring receiving locations to respond only if they cannot confirm receipt of shipments.

[redacted] audit of rate quotes consists of auditing freight charges against carrier contract or spot rates[9] as provided by C.H. Robinson Worldwide. [redacted] reviews shipping rate sheets and identifies discrepancies between the quoted rate and the actual rate C.H. Robinson Worldwide invoices to the Postal Service. [redacted] flags any discrepancies between these two rates as exceptions. C.H. Robinson Worldwide reviews the list of exceptions and provides summary explanations to the Postal Service.

[8] *The Postal Service's Certification Process for Non-Mail Freight Transportation Invoices* (Report Number CA-AR-09-002, issued February 18, 2009).
[9] An "on the spot" rate request. These quotes are for unique, one-time shipments.

Objective, Scope, and Methodology

Our objective was to determine whether suppliers using the TMSP contract charged the Postal Service for shipping costs and determine the Postal Service's receipt of shipments.

To accomplish our objective we:

- Sampled suppliers' invoices[10] that used the primary TMSP contract and C.H. Robinson Worldwide[11] from April 1, 2011, through March 31, 2013. We analyzed [redacted] contract and invoices during our survey and sampled an additional 12 external suppliers during fieldwork.

- Examined 12 suppliers with $500,000 or greater in shipping charges. The charges from these suppliers accounted for about 41 percent of the total freight charges in our scope.

- Reviewed Postal Service criteria, guidelines, and procedures on the TMSP process.

- Interviewed contracting officials to determine how suppliers use TMSP and how the Postal Service pays its invoices.

- Identified instances where F.O.B. Origin contracts were identified in the Contract Authoring and Management System and on Postal Service Form 8203 as F.O.B. Destination[12] contracts.

- Reviewed supplier contracts to determine whether the requirement for suppliers to use the TMSP contract for shipping was in the contract.

- Interviewed [redacted] officials to determine how they derived credits for TMSP shipments.

- Identified proof of delivery samples and sent survey letters to recipient locations and requested bills of lading to confirm whether shipment receipt.

- Analyzed product invoices and bills of lading we received from suppliers to determine whether they included shipping charges in their per unit price.

- Determined whether the Postal Service received credits from rate quote exceptions [redacted] identified.

[10] Our scope included shipping costs, not the cost of the product.
[11] We focused only on the primary TMSP, because C.H. Robinson Worldwide handles the majority of TMSP shipments and accounts for the majority of shipping costs.
[12] F.O.B. Destination means free delivery for the Postal Service to a destination or shipment base point specified in the contract. *Supplying Principles and Practices*, Section 4-2.5, Free-On-Board (F.O.B) Destination, September 2013.

We conducted this performance audit from February 2013 through January 2014, in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on January 21, 2014, and included their comments where appropriate.

We assessed the reliability of computer-generated data by analyzing and validating invoices we received from suppliers and the corresponding bills of lading and interviewing Postal Service officials who were knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this audit.

Appendix B: Monetary and Other Impacts

Monetary Impacts

Recommendation	Impact Category	Amount
1	Unsupported Questioned Costs[13]	$2,566,084

Other Impacts

Recommendation	Impact Category	Amount
2	Assets at Risk[14]	$298,233

We performed a variable sample that allowed us to extrapolate results from a universe of 2,910 shipments, valued at $2,976,183, and identified as proof of delivery exceptions from April 1, 2011, to March 31, 2013. We found discrepancies with 71 of the 87 shipments tested ($99,047 worth) because Postal Service recipient locations could not produce evidence confirming the receipt of shipments. At a 95-percent confidence level, we projected that at least $2,566,084 of the $2,976,183 are unsupported costs because Postal Service recipient locations could not produce copies of the bills of lading to validate receipt. We claimed this amount as unsupported questioned costs because of missing or incomplete documentation or failure to follow policy or required procedures but this does not necessarily indicate that the Postal Service incurred actual loss.

The $298,233 in assets at risk includes $246,683 in shipping costs the Postal Service is at risk of overpaying because it does not have sufficient procedures to identify and pursue overcharges and $51,550 because a lack of controls to ensure transparency, thus increasing the risk of incurring shipping costs that go unnoticed.

[13] A weaker claim and a subset of questioned costs. Claimed because of failure to follow policy or required procedures but does not necessarily connote any real damage to Postal Service.

[14] Assets or accountable items (for example, cash, stamps, and money orders) that are at risk of loss because of inadequate internal controls.

Appendix C: Management's Comments

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

UNITED STATES POSTAL SERVICE

February 12, 2014

JUDITH LEONHARDT

SUBJECT: Response to Draft Audit Report – Transportation Management Service Provider Shipping Process (Report Number SM-AR-14-DRAFT)

Thank you for providing the Postal Service with the opportunity to review and comment on this subject draft report. Management generally agrees with the findings, recommendations, and impact associated with this audit report.

OIG Audit Recommendations:

We recommend the Vice President, Supply Management:

Recommendation 1: Develop and implement an alternative process to [redacted] use of negative confirmation to ensure that all shipments are received and follow up on any exceptions identified.

Management Response: Management generally agrees with this recommendation. Because of the potential increased costs associated with these suggested changes in the audit process; we would like to take this opportunity to further assess the program and develop new requirements for the auditing of our freight invoices. We anticipate that a new statement of work and establishment of an internal process for the management of identified exceptions based upon those new requirements will be completed; and, a solicitation issued, prior to the September 30, 2014 expiration of the current contract.

Target Implementation Date: July 2014

Responsible Manager: Manager, Asset Management

Recommendation 2: Develop and implement detailed procedures to address the rate quote exceptions identified and pursue credits owed to the Postal Service.

Management Response: Management generally agrees with this recommendation. In coordination with recommendation 1 above, we will assess this process to determine the best approach to address this concern.

Target Implementation Date: July 2014

Responsible Manager: Manager, Asset Management

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This report and management's response do not contain proprietary or sensitive business information that may be exempt from disclosure pursuant to the Freedom of Information Act. If you have any questions about this response, please contact Susan Witt at (202) 268-4833.

Susan M. Brownell

cc: Corporate Audit Response Management